

**AR-WE-VA
COMMUNITY SCHOOL DISTRICT**

INDEPENDENT AUDITOR'S REPORT
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS

JUNE 30, 2005

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AR-WE-VA COMMUNITY SCHOOL DISTRICT

OFFICIALS

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
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BOARD OF EDUCATION

(Before September, 2004 Election)

Jeffrey Luetje	President	2004
Alan Druivenga	Vice President	2005
Judy Gronau		2005
Lanice Kock		2006
Della Osborne		2006

(After September, 2004 Election)

Judy Gronau	President	2005
Della Osborne	Vice President	2006
Jeffrey Luetje		2007
Lanice Kock		2006
Alan Druivenga		2005

SCHOOL OFFICIALS

Leonard Griffith	Superintendent
Rebecca Friederichs	District Secretary/ Treasurer

Independent Auditor's Report

To The Board of Education of the
Ar-We-Va Community School District:

We have audited the accompanying financial statements of the governmental activities, business type activities, each major fund and the aggregate remaining fund information of Ar-We-Va Community School District, Westside, Iowa, as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business type activities, each major fund, and the aggregate remaining fund information of Ar-We-Va Community School District as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our reports dated July 19, 2005 on our consideration of Ar-We-Va Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 12 and 29 through 31 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Ar-We-Va Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the year ended June 30, 2004 (none of which are presented herein) and expressed an unqualified opinion on those financial statements. The financial statements for the two years ended June 30, 2003 (none of which are presented herein) were audited by other auditors who expressed unqualified opinions on those financial statements. The supplementary information included in Schedules 1 through 4, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

BRUCE D. FRINK
Certified Public Accountant

July 19, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

AR-WE-VA COMMUNITY SCHOOL DISTRICT

Ar-We-Va Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2005. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

Because the District is implementing new reporting standards for this fiscal year with significant changes in content and structure, much of the information is not easily comparable to prior years. However, in future years, comparisons will be more meaningful and will go further in explaining the District's financial position and results of operations.

2005 FINANCIAL HIGHLIGHTS

- General Fund revenues increased from \$3,254,258 in fiscal 2004 to \$3,334,448 in fiscal 2005, while General Fund expenditures increased from \$3,089,702 in fiscal year 2004 to \$3,258,124 in fiscal 2005.
- The increase in General Fund revenues was attributable to an increase in tuition and miscellaneous income. The increase in expenditures was due primarily to an increase in the negotiated salary and benefits and increased Special Education and special instruction program costs. The General Fund balance increased due to careful monitoring of discretionary spending and sharing of administrative and teaching staff.
- The School Infrastructure Local Option Sales Tax is collected in Carroll and Crawford Counties. These monies are being used for improvements to district facilities.

OVERVIEW OF THE FINANCIAL STATEMENTS

This report consists of three parts: management's discussion and analysis (this section), the basic financial statements and required supplementary information. The basic financial statements include two kinds of statements that present different views of the District:

- The first two statements are Government-wide financial statements that provide both short-term and long-term information about the District's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the District, reporting the District's operations in more detail than the government-wide statements.
- The statements for governmental funds explain how basic services, such as regular and special education, were financed in the short term, as well as what remains for future spending.
- The statement for proprietary funds offer short-term and long-term financial information about the activities the District operates like businesses, such as food services.

Other Supplementary Information provides detailed information about the non-major Special Revenue Funds. In addition, the Schedule of Expenditures of Federal Awards provides details of various programs benefiting the District.

Figure A-1 shows how the various parts of this annual report are arranged and relate to one another.

Figure A-1
Ar-We-Va Community School District

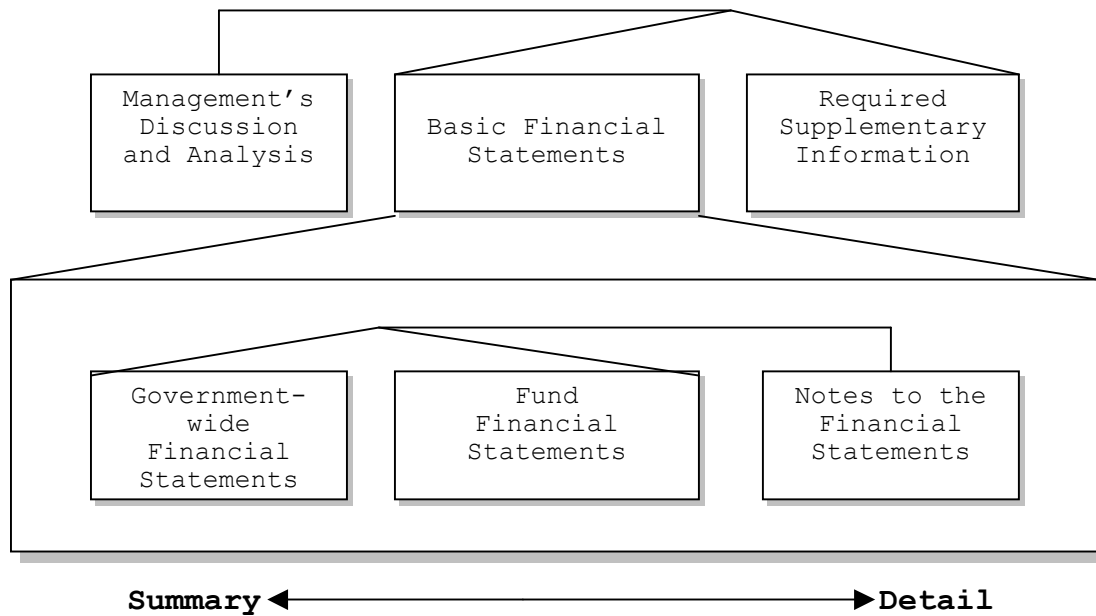


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain the remainder of this overview section of the management discussion and analysis highlights the structure and contents of each of the statements.

Figure A-2 Major Features of the Government-Wide and Fund Financial Statements			
	Government-Wide Statements	Fund Financial Statements	
		Governmental Funds	Proprietary Funds
Scope	Entire district	The activities of the district that are not proprietary, such as special education and building maintenance	Activities the district operates similar to private businesses, such as food service
Required financial statements	. Statement of net assets . Statement of activities	. Balance sheet . Statement of revenues, expenditures, and changes in fund balances	. Statement of net assets . Statement of revenues, expenses and changes in net assets . Statement of cash flows
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, and short-term and long-term
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due and payable	All revenues and expenses during the year, regardless of when cash is received or paid

REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

The two government-wide statements report the District's net assets and how they have changed. Net assets – the difference between the District's assets and liabilities – is one way to measure the District's financial health or position.

- Over time, increases or decreases in the District's net assets are an indicator of whether financial position is improving or deteriorating respectively.
- To assess the District's overall health, you need to consider additional non-financial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities.

In the government-wide financial statements, the District's activities are divided into two categories:

- **Governmental activities:** Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property tax and state aid finance most of these activities.
- **Business-type activities:** The District charges fees to help cover the costs of certain services it provides. The District's school nutrition program is included here.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

- Some funds are required by state law and by bond covenants.
- The District establishes other funds to control and manage money for particular purposes, such as accounting for student activity funds or to show that it is properly using certain revenues such as federal grants.

The District has two kinds of funds:

- 1) **Governmental funds:** Most of the District's basic services are included in governmental funds, which generally focus on (1) how much cash and other financial assets can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, additional information at the bottom of the governmental funds statements explains the relationship (or differences) between them. The District's governmental funds include the General Fund, Special Revenue Funds, Debt Service Fund and Capital Projects Fund.
- 2) **Proprietary funds:** Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide statements. The District's enterprise funds (one type of proprietary fund) are the same as its business-type activities but provide more detail and additional information, such as cash flows. The District currently has one enterprise fund, the School Nutrition Fund.

Reconciliations between the government-wide financial statements and the fund financial statements follow the fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets - Figure A-3 below provides a summary of the District's net assets for the year ended June 30, 2005 compared to June 30, 2004.

Figure A-3
Condensed Statement of Net Assets
(expressed in thousands)

	Governmental		Business-type		Total		Percentage
	Activities		Activities		School District		Change
	June 30,		June 30,		June 30,		June 30,
	2005	2004	2005	2004	2005	2004	2004-2005
	\$	\$	\$	\$	\$	\$	
Current assets	2,607	2,441	24	35	2,631	2,476	6.26%
Capital assets	<u>359</u>	<u>302</u>	<u>8</u>	<u>10</u>	<u>367</u>	<u>312</u>	<u>17.63%</u>
Total assets	<u>2,966</u>	<u>2,743</u>	<u>32</u>	<u>45</u>	<u>2,998</u>	<u>2,788</u>	<u>7.53%</u>
Current liabilities	1,186	1,206	4	4	1,190	1,210	-1.65%
Non-current liabilities	<u>31</u>	<u>21</u>	<u>-</u>	<u>-</u>	<u>31</u>	<u>21</u>	<u>47.62%</u>
Total liabilities	<u>1,217</u>	<u>1,227</u>	<u>4</u>	<u>4</u>	<u>1,221</u>	<u>1,231</u>	<u>-0.81%</u>
Net Assets							
Invested in capital assets, net of related debt	359	302	8	10	367	312	17.63%
Restricted	134	77	-	-	134	77	74.03%
Unrestricted	<u>1,256</u>	<u>1,137</u>	<u>20</u>	<u>31</u>	<u>1,276</u>	<u>1,168</u>	<u>9.25%</u>
Total net assets	<u>1,749</u>	<u>1,516</u>	<u>28</u>	<u>41</u>	<u>1,777</u>	<u>1,557</u>	<u>14.13%</u>

The District's combined net assets were greater at June 30, 2005 than June 30, 2004. The increase occurred as a combined result of increased miscellaneous revenue from all sources and controlled spending increases.

Changes in net assets - figure A-4 shows the changes in net assets for the year ended June 30, 2005.

Figure A-4
Change in Net Assets
(expressed in thousands)

	Governmental Activities	Business-type Activities	Total School District
	\$	\$	\$
Revenues:			
Program revenues:			
Charges for service and sales	241	84	325
Operating grants, contributions and restricted interest	678	76	754
General revenues:			
Property tax	1,098	-	1,098
Income surtax	144	-	144
Local option sales tax	134	-	134
Unrestricted state grants	1,482	-	1,482
Unrestricted investment earnings	11	-	11
Other	16	-	16
Total revenues	<u>3,804</u>	<u>160</u>	<u>3,964</u>
Program expenses:			
Governmental activities:			
Instruction	2,203	-	2,203
Support Services	1,088	-	1,088
Non-instructional programs	4	173	177
Other expenses	277	-	277
Total expenses	<u>3,572</u>	<u>173</u>	<u>3,745</u>
Change in net assets	<u>232</u>	<u>(13)</u>	<u>219</u>

Property tax and unrestricted state grants account for 65% of the total revenue. The District's expenses primarily relate to instruction and support services, which account for 88% of the total expenses.

Governmental Activities

Revenues for governmental activities were \$3,803,389 and expenses were \$3,571,359.

The following table presents the total and net cost of the District's major governmental activities: instruction, support services, non-instructional programs and other expenses.

Figure A-5		
Total and Net Cost of Governmental Activities		
(expressed in thousands)		
	Total Cost of Services	Net Cost of Services
	\$	\$
Instruction	2,203	1,489
Support Services	1,088	1,071
Non-instructional programs	4	4
Other expenses	<u>277</u>	<u>88</u>
Totals	<u><u>3,572</u></u>	<u><u>2,652</u></u>

- The cost financed by users of the District's programs was \$241,538.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$505,491.
- The net cost of governmental activities was financed with \$1,097,262 in property tax, \$1,481,919 in state foundation aid, and \$10,914 in interest income.

Business-Type Activities

Revenues of the District's business-type activities were \$160,798 and expenses were \$173,454. The District's business-type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

As previously noted Ar-We-Va Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported a combined fund balance of 1,748,488, a fifteen percent increase over last year's ending fund balances of \$1,516,458. The primary reasons were additional miscellaneous income and school infrastructure local option sales revenue increases.

Governmental Fund Highlights

- The District has implemented various methods to increase offerings while keeping all students based in their home district.
- With the available PPEL dollars the District was able to do a number of repair and remodeling projects to maintain the District's facilities.
- Sales tax revenues increased in fiscal 2005 by over \$90,000. A contribution of \$50,000 for a new gym floor was also received. This money was also used to purchase a bus and various building improvement projects.

Proprietary Fund Highlights

The District's Nutrition Fund decreased by over \$12,000. Increased food costs not being offset by increased revenues caused the decrease.

BUDGETARY HIGHLIGHTS

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated function level, not at the fund or fund type level. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the cash basis. A schedule showing the original and final budget amounts compared to the District's actual financial activity is included in the required supplementary information section of this report. Since the District does not adopt a budget for individual funds, budgets for the General Fund and major Special Revenue Funds are not presented in the budgetary comparison on pages 35 and 36.

Legal Budgetary Highlights

The District's receipts were \$25,000 less than budgeted receipts. The most significant variance resulted from the District receiving less in state aid than originally anticipated.

Total expenditures were less than budgeted by \$1,054,200. Ar-We-Va Community School District budgets expenditures at the maximum authorized spending authority. The budget should exceed actual expenditures using this approach. Expenditures did not exceed the amounts budgeted in any of the four functions.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2005, the District had invested over \$1.4 million in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. More detailed information about the District's capital assets is presented in Note 3 to the financial statements. Depreciation expense for the year was over \$68,000.

Long-Term Debt

The District's long-term debt consists of its early retirement program that is offered on an irregular basis. The final payments will be made in fiscal year 2007.

FACTORS BEARING ON THE DISTRICT'S FUTURE

At the time these financial statements were prepared and audited, the District was aware of existing circumstances that could significantly affect its financial health in the future:

- The SILO tax was passed and money began to be received by the District in fiscal 2004. This will allow the District to maintain its facilities and purchase equipment items not otherwise affordable.
- The District's enrollment decreased by 17.5 students in fiscal 2005. Maintaining enrollment as well as adequate allowable growth will be critical in the coming years.

- The District has been active in pursuing options for increasing the educational opportunities for all of its students, particularly high school. These will hopefully save costs as well as make the District more attractive to students.
- Iowa law requires that unsettled salary negotiations for teachers go to mandatory arbitration. Invariably arbitrated settlements are higher than current levels of allowable growth in funding (not including the budget cuts after the contracts have been settled and people have been hired).
- Unfunded mandates are stretching the limits of not only the financial health of the District, but also the human resources aspect of the District. "No Child Left Behind", "Student Achievement and Teacher Quality Act", and "GASB 34", to name a few.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Leonard Griffith, Superintendent, Ar-We-Va Community School District, 108 Clinton St, Westside, IA 51467.

Basic Financial Statements

AR-WE-VA COMMUNITY SCHOOL DISTRICT

Statement of Net Assets

June 30, 2005

	Governmental Activities	Business-Type Activities	Total
	\$	\$	\$
Assets			
Cash and pooled investments	1,300,407	23,905	1,324,312
Receivables:			
Property tax:			
Current year	20,538	-	20,538
Succeeding year	1,123,848	-	1,123,848
Income surtax - succeeding year	69,691	-	69,691
Due from other governments	80,654	-	80,654
Other receivables	12,000	-	12,000
Capital assets, net of accumulated depreciation	358,545	8,095	366,640
Total assets	2,965,683	32,000	2,997,683
Liabilities			
Accounts payable	47,268	-	47,268
Accrued payroll and benefits	15,579	3,609	19,188
Deferred revenue:			
Succeeding year property tax	1,123,848	-	1,123,848
Long-term liabilities:			
Portion due within one year:			
Early retirement	29,000	-	29,000
Portion due after one year:			
Early retirement	1,500	-	1,500
Total liabilities	1,217,195	3,609	1,220,804
Net assets			
Invested in capital assets, net of related debt	358,545	8,095	366,640
Restricted for:			
Management levy	14,846	-	14,846
Physical plant and equipment levy	2,050	-	2,050
Capital projects	117,282	-	117,282
Unrestricted	1,255,765	20,296	1,276,061
Total net assets	1,748,488	28,391	1,776,879

See notes to financial statements.

AR-WE-VA COMMUNITY SCHOOL DISTRICT

Statement of Activities

Year ended June 30, 2005

	Program Revenues					Total
	Expenses	Charges for Service	Operating Grants, Contributions and Restricted Interest	Governmental Activities	Business-Type Activities	
	\$	\$	\$	\$	\$	\$
<u>Functions/Programs</u>						
Governmental activities:						
Instruction:						
Regular instruction	1,498,367	91,846	153,710	(1,252,811)	-	(1,252,811)
Special instruction	357,581	149,692	196,965	(10,924)	-	(10,924)
Other instruction	347,263	-	122,366	(224,897)	-	(224,897)
	<u>2,203,211</u>	<u>241,538</u>	<u>473,041</u>	<u>(1,488,632)</u>	<u>-</u>	<u>(1,488,632)</u>
Support services:						
Student services	73,383	-	2,578	(70,805)	-	(70,805)
Instructional staff services	36,364	-	-	(36,364)	-	(36,364)
Administration services	470,222	-	54	(470,168)	-	(470,168)
Operation and maintenance of plant services	304,369	-	-	(304,369)	-	(304,369)
Transportation services	203,730	-	14,490	(189,240)	-	(189,240)
	<u>1,088,068</u>	<u>-</u>	<u>17,122</u>	<u>(1,070,946)</u>	<u>-</u>	<u>(1,070,946)</u>
Noninstructional programs:						
Food service operations	3,522	-	-	(3,522)	-	(3,522)
Other expenditures:						
AEA flowthrough	137,685	-	137,685	-	-	-
Facilities acquisition and construction	113,747	-	50,307	(63,440)	-	(63,440)
Depreciation (unallocated) *	25,126	-	-	(25,126)	-	(25,126)
	<u>276,558</u>	<u>-</u>	<u>187,992</u>	<u>(88,566)</u>	<u>-</u>	<u>(88,566)</u>
Total governmental activities	3,571,359	241,538	678,155	(2,651,666)	-	(2,651,666)

AR-WE-VA COMMUNITY SCHOOL DISTRICT

Statement of Activities

Year ended June 30, 2005

	Program Revenues					Total
	Expenses	Charges for Service	Operating Grants, Contributions and Restricted Interest	Governmental Activities	Business-Type Activities	
	\$	\$	\$	\$	\$	\$
Business-Type activities:						
Non-instructional programs:						
Nutrition services	173,454	84,392	76,406	-	(12,656)	(12,656)
Total	<u>3,744,813</u>	<u>325,930</u>	<u>754,561</u>	<u>(2,651,666)</u>	<u>(12,656)</u>	<u>(2,664,322)</u>
General revenues:						
Property tax levied for:						
General purposes				1,004,643	-	1,004,643
Management				59,947	-	59,947
Capital outlay				32,672	-	32,672
Income surtax				143,559	-	143,559
Local option sales tax				133,870	-	133,870
Unrestricted state grants				1,481,919	-	1,481,919
Unrestricted investment earnings				10,914	-	10,914
Other				<u>16,172</u>	<u>-</u>	<u>16,172</u>
Total general revenue				<u>2,883,696</u>	<u>-</u>	<u>2,883,696</u>
Change in net assets				232,030	(12,656)	219,374
Net assets beginning of year				<u>1,516,458</u>	<u>41,047</u>	<u>1,557,505</u>
Net assets end of year				<u>1,748,488</u>	<u>28,391</u>	<u>1,776,879</u>

* This amount excludes the depreciation that is included in the direct expenses of the various programs.

See notes to financial statements.

AR-WE-VA COMMUNITY SCHOOL DISTRICT

Balance Sheet

Governmental Funds

June 30, 2005

	General	Capital Projects	Nonmajor Special Revenue	Total
	\$	\$	\$	\$
Assets				
Cash and pooled investments	1,130,306	96,108	73,993	1,300,407
Receivables:				
Property tax:				
Current year	18,807	-	1,731	20,538
Succeeding year	1,040,974	-	82,874	1,123,848
Income surtax - succeeding year	69,691	-	-	69,691
Interfund receivables	-	10,559	-	10,559
Due from other governments	57,808	22,846	-	80,654
Other	-	-	12,000	12,000
Total assets	<u>2,317,586</u>	<u>129,513</u>	<u>170,598</u>	<u>2,617,697</u>
Liabilities and Fund Balance				
Liabilities:				
Accounts payable	34,843	12,231	194	47,268
Accrued payroll and benefits	15,579	-	-	15,579
Interfund payable	-	-	10,559	10,559
Deferred revenue:				
Succeeding year property tax	1,040,974	-	82,874	1,123,848
Succeeding year income surtax	69,691	-	-	69,691
Total liabilities	<u>1,161,087</u>	<u>12,231</u>	<u>93,627</u>	<u>1,266,945</u>
Fund balances:				
Reserved for capital projects	-	117,282	-	117,282
Unreserved	<u>1,156,499</u>	<u>-</u>	<u>76,971</u>	<u>1,233,470</u>
Total fund equity and other credits	<u>1,156,499</u>	<u>117,282</u>	<u>76,971</u>	<u>1,350,752</u>
Total liabilities and fund balances	<u>2,317,586</u>	<u>129,513</u>	<u>170,598</u>	<u>2,617,697</u>

See notes to financial statements.

AR-WE-VA COMMUNITY SCHOOL DISTRICT

Reconciliation of the Balance Sheet - Governmental Funds
to the Statement of Net Assets

June 30, 2005

Total fund balances of governmental funds (Exhibit C)	\$ 1,350,752
Amounts reported for governmental activities in the statement of net assets are different because:	
Income surtax receivable at June 30, 2005 is not recognized as a revenue until received in the governmental funds, however it is shown as a revenue in the Statement of Activities in the year of levy, thus no deferred revenue is shown in the Statement of Net Assets	69,691
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds	358,545
Long-term liabilities, including early retirement, are not due and payable in the current period and, therefore, are not reported in the funds	<u>(30,500)</u>
Net assets of governmental activities (Exhibit A)	<u><u>\$ 1,748,488</u></u>

See notes to financial statements.

AR-WE-VA COMMUNITY SCHOOL DISTRICT

Statement of Revenues, Expenditures and Changes in Fund Balances

Governmental Fund Types

Year ended June 30, 2005

	General	Capital Projects	Nonmajor Special Revenue	Total
	\$	\$	\$	\$
Revenues:				
Local sources:				
Local tax	1,078,511	133,870	92,619	1,305,000
Tuition	231,661	-	-	231,661
Other	36,963	50,254	122,410	209,627
State sources	1,770,289	-	57	1,770,346
Federal sources	217,064	-	-	217,064
Total revenues	<u>3,334,488</u>	<u>184,124</u>	<u>215,086</u>	<u>3,733,698</u>
Expenditures:				
Current:				
Instruction:				
Regular instruction	1,537,528	-	-	1,537,528
Special instruction	357,581	-	-	357,581
Other instruction	227,784	-	119,479	347,263
	<u>2,122,893</u>	<u>-</u>	<u>119,479</u>	<u>2,242,372</u>
Support services:				
Student services	73,383	-	-	73,383
Instructional staff services	36,364	-	-	36,364
Administration services	396,617	-	73,605	470,222
Operation and maintenance of plant services	304,369	-	-	304,369
Transportation services	183,291	-	-	183,291
	<u>994,024</u>	<u>-</u>	<u>73,605</u>	<u>1,067,629</u>
Noninstructional programs:				
Food service operations	3,522	-	-	3,522
Other expenditures:				
AEA flowthrough	137,685	-	-	137,685
Facilities acquisition and construction	-	99,768	67,078	166,846
	<u>137,685</u>	<u>99,768</u>	<u>67,078</u>	<u>304,531</u>
Total expenditures	<u>3,258,124</u>	<u>99,768</u>	<u>260,162</u>	<u>3,618,054</u>
Excess (deficiency) of revenues over (under) expenditures	76,364	84,356	(45,076)	115,644
Fund balances beginning of year	<u>1,080,135</u>	<u>32,926</u>	<u>122,047</u>	<u>1,235,108</u>
Fund balances end of year	<u>1,156,499</u>	<u>117,282</u>	<u>76,971</u>	<u>1,350,752</u>

See notes to financial statements.

AR-WE-VA COMMUNITY SCHOOL DISTRICT

Reconciliation of the Statement of Revenues, Expenditures and
Changes in Fund Balances - Governmental Funds
to the Statement of Activities

Year ended June 30, 2005

Net change in fund balances - total governmental funds (Exhibit E) \$ 115,644

**Amounts reported for governmental activities in the
statement of activities are different because:**

Income surtax receivable at June 30, 2005 is not recognized as income until received in the governmental funds, however it is shown as a revenue in the Statement of Activities. 69,691

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. The amounts of capital outlays and depreciation expense in the year are as follows:

Expenditures for capital assets	\$ 122,786	
Depreciation expense	<u>(66,591)</u>	56,195

Early retirement benefits accrued in the current year increase long-term liabilities. (20,000)

Early retirement expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds. 10,500

Change in net assets of governmental activities (Exhibit B) \$ 232,030

See notes to financial statements.

AR-WE-VA COMMUNITY SCHOOL DISTRICT

Statement of Revenues, Expenses and Changes in Net Assets

Proprietary Fund

Year ended June 30, 2005

	School Nutrition
	<u>\$</u>
Operating revenue:	
Local sources:	
Charges for services	<u>84,392</u>
Operating expenses:	
Non-instructional programs:	
Food service operations:	
Salaries	59,182
Benefits	7,858
Supplies	103,896
Property	581
Depreciation	<u>1,937</u>
Total operating expenses	<u>173,454</u>
Operating (loss)	<u>(89,062)</u>
Non-operating revenues:	
State sources	1,021
Federal sources	75,300
Interest income	<u>85</u>
	<u>76,406</u>
Changes in net assets	(12,656)
Net assets beginning of year	<u>41,047</u>
Net assets end of year	<u><u>28,391</u></u>

See notes to financial statements.

AR-WE-VA COMMUNITY SCHOOL DISTRICT

Statement of Cash Flows

Proprietary Fund

Year ended June 30, 2005

	School Nutrition
	\$
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	84,392
Cash payments to employees for services	(66,954)
Cash payments to suppliers for goods or services	(94,209)
Net cash (used in) operating activities	(76,771)
Cash flows from non-capital financing activities:	
State grants received	1,021
Federal grants received	67,863
Net cash provided by non-capital financing activities	68,884
Cash flows from investing activities:	
Interest on investments	85
Net (decrease) in cash and cash equivalents	(7,802)
Cash and cash equivalents beginning of year	31,707
Cash and cash equivalents end of year	23,905
Reconciliation of operating income (loss) to net cash used in operating activities:	
Operating (loss)	(89,062)
Adjustments to reconcile operating profit (loss) to net cash provided by (used in) operating activities:	
Depreciation	1,937
Commodities used	7,437
Decrease in inventory	2,831
Increase in accrued payroll and benefits	86
	(76,771)
Reconciliation of cash and cash equivalents at year end to specific assets included on Combined Balance Sheet:	
Current assets:	
Cash	23,905

Non-cash investing, capital and financing activities:

During the year ended June 30, 2005, the District received federal commodities valued at \$7,437.

See notes to financial statements.

AR-WE-VA COMMUNITY SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2005

(1) Summary of Significant Accounting Policies

The Ar-We-Va Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve. Additionally, the District either operates or sponsors summer recreational activities. The geographic area served includes the Cities of Arcadia, Vail and Westside, Iowa, and agricultural area in Carroll and Crawford Counties. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

The District's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, Ar-We-Va Community School District has included all funds, organizations, account groups, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the District. The Ar-We-Va Community School District has no component units, which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations - The District participates in a jointly governed organization that provides services to the District but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Carroll and Crawford Counties Assessor's Conference Boards.

B. Basis of Presentation

Government-wide financial statements - The Statements of Net Assets and the Statement of Activities report information on all of the non-fiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for service.

The Statement of Net Assets presents the District's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources that are imposed by management, which can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest that are restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements - Separate financial statements are provided for governmental proprietary fund. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other non-major governmental funds.

The District reports the following major governmental funds:

The General Fund is the general operating fund of the District. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenses, including instructional, support and other costs.

The Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities.

The District reports the following major proprietary fund:

The District's proprietary fund is the Enterprise, School Nutrition Fund. This fund is used to account for the food service operations of the District.

C. Measurement Focus and Basis of Accounting

The government-wide financial statements and the proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments, and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financial sources.

Under terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

The proprietary fund of the District applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary funds' principal ongoing operations. The principal operating revenues of the District's enterprise fund is charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sale and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The District maintains its financial records on the cash basis. The financial statement of the District are prepared by making memorandum adjusting entries to the cash basis financial records.

D. Assets, Liabilities and Fund Equity

Cash, Pooled Investments and Cash Equivalents - The cash balances of most District funds are pooled and invested. Investments are stated at fair value except for non-negotiable certificates of deposit, which are stated at cost.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, they have a maturity date no longer than three months.

Property Tax Receivable - Property tax in Governmental Funds are accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking the budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2003 assessed property valuations; is for the tax accrual period July 1, 2004 through June 30, 2005 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April 2004.

Due From Other Governments - Due from other governments represents amounts due from the State of Iowa and grants from other governments.

Inventories - Inventories are valued at cost using the first-in, first-out method for purchased items and contributed value for government commodities. Inventories of proprietary funds are recorded as expenses when consumed rather than when purchased or received.

Capital Assets - Capital assets, which include property, furniture, and equipment, are reported in the applicable governmental or business-type activities columns in the government-wide Statement of Net Assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

Land	\$ 1,000
Buildings	10,000
Improvements other than buildings	10,000
Furniture and equipment:	
School Nutrition Fund equipment	10,000
Other furniture and equipment	10,000

Capital assets are depreciated using the straight line method of depreciation over the following estimated useful lives:

Buildings	50 years
Improvements other than buildings	20-50 years
Furniture and equipment	5-15 years

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collectible within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represent the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds as well as property tax receivables and other receivables not collected within sixty days after year end.

Deferred revenue on the Statement of Net Assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

Compensated Absences - District employees accumulated a limited amount of earned but unused vacation for subsequent use or for payment upon termination, death or retirement. A liability is recorded when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental funds only for employees that have resigned or retired. The compensated absences liability is deemed to be immaterial at June 30, 2005.

Fund Equity - In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Restricted Net Assets - In the Government-wide Statement of Net Assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information.

(2) **Cash and Pooled Investments**

The District's deposits in banks at June 30, 2005 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The District had no investments at June 30, 2005.

(3) **Capital Assets**

Capital assets activity for the year ended June 30, 2005 was as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
	\$	\$	\$	\$
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 54,700	-	-	54,700
Capital assets being depreciated:				
Site Improvements	103,140	-	-	103,140
Buildings	944,636	-	-	944,636
Furniture and Equipment	344,642	122,786	-	467,428
Total capital assets being depreciated	1,392,418	122,786	-	1,515,204
Less accumulated depreciation for:				
Site Improvements	99,633	3,507	-	103,140
Buildings	806,019	14,668	-	820,687
Furniture and Equipment	239,116	48,416	-	287,532
Total accumulated depreciation	1,144,768	66,591	-	1,211,359
Total capital assets being depreciated, net	247,650	56,195	-	303,845
Governmental activities, capital assets, net	\$ 302,350	56,195	-	358,545

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
	\$	\$	\$	\$
Business type activities:				
Furniture and equipment	44,154	0	-	44,154
Less accumulated depreciation	<u>34,122</u>	<u>1,937</u>	<u>-</u>	<u>36,059</u>
Business type activities capital assets, net	<u>\$ 10,032</u>	<u>(1,937)</u>	<u>-</u>	<u>8,095</u>

Depreciation expense was charged to the following functions:

Governmental activities:

Support services:

Transportation

Unallocated

41,465

25,126

\$ 66,591

Business Type activities:

Food service operations

\$ 1,937

(4) Pension and Retirement Benefits

The District contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits, which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, PO Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual salary and the District is required to contribute 5.75% of annual payroll. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2005, 2004, and 2003 were \$122,861, \$115,319, and \$110,910 respectively, equal to the required contributions for each year.

(5) Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$137,685 for year ended June 30, 2005 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

(6) Risk Management

The District was a member in the Iowa School Employees Benefits Association (ISEBA), an Iowa Code Chapter 28E organization until June 30, 2004. ISEBA is a local government risk-sharing pool whose members include various schools throughout the State of Iowa. The Association was formed July 1999 for the purpose of managing and funding employee benefits. The Association provides coverage and protection in the following categories: medical, dental, vision and prescription drugs.

In July 2004, the Association converted from a self-funded pool to a fully insured pool covered by Wellmark Blue Cross Blue Shield of Iowa. In December 2004, ISEBA issued assessments necessary to cover run-out claims received when the program converted from self-insured to fully insured coverage. ISEBA is recovering the shortfall through a combination of assessments, deficit recovery charges and administrative cost reduction measures. Members that terminated from ISEBA on June 30, 2004 received an assessment in December 2004, which is due July 1, 2005. The total assessment for terminated members is approximately \$3.9 million. The District's share of this assessment was \$19,007, which is recorded as a liability as of June 30, 2005.

The District is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The District assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(7) Long-Term Debt

A summary of changes in long-term debt for the year ended June 30, 2005 is as follows:

	<u>Early Retirement</u>
Balance beginning of year	\$21,500
Additions	20,000
Reductions	<u>10,500</u>
Balance end of year	<u>\$30,500</u>

Early Retirement - The District offered a voluntary early retirement to teachers for the 2004-2005 school year only. To qualify, a teacher must have been employed at Ar-We-Va Community School District for a minimum length of 15 years at full time, and also be at least 55 years of age. If a teacher met those requirements and chose to retire, the Ar-We-Va Community School District offered him or her \$10,000 over a four-year period to be applied to their health insurance at \$250 per month. A liability has been recorded in the General Long-Term Debt Account Group representing the District's Commitment to fund non-current early retirement.

(8) Interfund Receivable/Payable

The Capital Projects Fund is deemed to have loaned the Physical Plant and Equipment Levy \$10,559 as a result of a cash shortfall in a joint checking account.

Required Supplementary Information

AR-WE-VA COMMUNITY SCHOOL DISTRICT

Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances -
Budget and Actual - All Governmental Funds and Proprietary Fund

Required Supplementary Information

Year ended June 30, 2005

	Governmental Fund Types	Proprietary Fund Type	Total	Budgeted Amounts		Final to Actual
	Actual	Actual	Actual	Original	Final	Variance -
	\$	\$	\$	\$	\$	\$
Receipts:						
Local sources	1,768,136	84,477	1,852,613	1,742,780	1,742,780	109,833
State sources	1,770,346	1,021	1,771,367	1,905,786	1,905,786	(134,419)
Federal sources	217,064	67,863	284,927	285,000	285,000	(73)
Total receipts	3,755,546	153,361	3,908,907	3,933,566	3,933,566	(24,659)
Disbursements:						
Instruction	2,217,910	-	2,217,910	3,070,983	3,070,983	853,073
Support services	1,120,728	-	1,120,728	1,212,406	1,212,406	91,678
Non-instructional programs	3,522	161,163	164,685	237,881	237,881	73,196
Other expenditures	251,432	-	251,432	287,685	287,685	36,253
Total disbursements	3,593,592	161,163	3,754,755	4,808,955	4,808,955	1,054,200
Excess (deficiency) of receipts over (under) disbursements	161,954	(7,802)	154,152	(875,389)	(875,389)	1,029,541
Other financing sources (uses)	-	-	-	-	-	-
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	161,954	(7,802)	154,152	(875,389)	(875,389)	1,029,541
Balance beginning of year	1,138,453	31,707	1,170,160	858,613	858,613	311,547
Balance end of year	1,300,407	23,905	1,324,312	(16,776)	(16,776)	1,341,088

See accompanying independent auditor's report.

AR-WE-VA COMMUNITY SCHOOL DISTRICT

Budgetary Comparison Schedule - Budget to GAAP Reconciliation

Required Supplementary Information

Year ended June 30, 2005

	Governmental Fund Type		
	Cash Basis	Accrual Adjustments	Modified Accrual Basis
Revenues	\$ 3,755,546	(21,848)	3,733,698
Expenditures	<u>3,593,592</u>	<u>24,462</u>	<u>3,618,054</u>
Net	161,954	(46,310)	115,644
Other financing sources (uses)	-	-	-
Beginning fund balances	<u>1,138,453</u>	<u>96,655</u>	<u>1,235,108</u>
Ending fund balances	<u>\$ 1,300,407</u>	<u>50,345</u>	<u>1,350,752</u>

	Proprietary Fund Type		
	Enterprise		
	Cash Basis	Accrual Adjustments	Accrual Basis
Revenues	\$ 153,361	7,437	160,798
Expenditures	<u>161,163</u>	<u>12,291</u>	<u>173,454</u>
Net	(7,802)	(4,854)	(12,656)
Beginning fund balances	<u>31,707</u>	<u>9,340</u>	<u>41,047</u>
Ending fund balances	<u>\$ 23,905</u>	<u>4,486</u>	<u>28,391</u>

See accompanying independent auditor's report.

AR-WE-VA COMMUNITY SCHOOL DISTRICT

Notes to Required Supplementary Information - Budgetary Reporting

Year ended June 30, 2005

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standard Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the cash basis. Encumbrances are not recognized on the cash basis budget and appropriations lapse at year-end.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions, not by fund or fund type. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents functions expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not by fund. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula.

During the year ended June 30, 2005, disbursements did not exceed the amounts budgeted in any of the four functions. The District did not exceed its General Fund unspent authorized budget.

Other Supplementary Information

AR-WE-VA COMMUNITY SCHOOL DISTRICT

Combining Balance Sheet

Nonmajor Special Revenue Funds

June 30, 2005

	Management	Student	Physical Plant and Equipment Levy	Total
	\$	\$	\$	\$
Assets				
Cash	13,724	60,269	-	73,993
Property tax receivable:				
Current year	1,122	-	609	1,731
Succeeding year	50,000	-	32,874	82,874
Other receivables	-	-	12,000	12,000
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total assets	<u>64,846</u>	<u>60,269</u>	<u>45,483</u>	<u>170,598</u>
Liabilities and Fund Equity				
Liabilities:				
Accounts payable	-	194	-	194
Interfund payable	-	-	10,559	10,559
Deferred revenue:				
Succeeding year property tax	50,000	-	32,874	82,874
	<u>50,000</u>	<u>194</u>	<u>43,433</u>	<u>93,627</u>
Fund equity:				
Unreserved, undesignated fund balance	14,846	60,075	2,050	76,971
	<u>14,846</u>	<u>60,075</u>	<u>2,050</u>	<u>76,971</u>
Total liabilities and fund equity	<u>64,846</u>	<u>60,269</u>	<u>45,483</u>	<u>170,598</u>

See accompanying independent auditor's report.

AR-WE-VA COMMUNITY SCHOOL DISTRICT

Combining Schedule of Revenues, Expenditures
and Changes in Fund Balances

Nonmajor Special Revenue Funds

Year ended June 30, 2005

	Management	Student Activity	Physical Plant and Equipment Levy	Total
	\$	\$	\$	\$
Revenues:				
Local sources:				
Local tax	59,947	-	32,672	92,619
Other	18	122,360	32	122,410
State sources	36	-	21	57
Total revenues	60,001	122,360	32,725	215,086
Expenditures:				
Instruction:				
Regular instruction	-	-	-	-
Co-curricular instruction	-	119,479	-	119,479
Support services:				
Student support services	-	-	-	-
Instructional support services	-	-	-	-
Administration services	73,605	-	-	73,605
Plant operation and maintenance	-	-	-	-
Student transportation	-	-	-	-
Other expenditures:				
Facility acquisition and construction services	-	-	67,078	67,078
Total expenditures	73,605	119,479	67,078	260,162
Excess (deficiency) of revenues over (under) expenditures	(13,604)	2,881	(34,353)	(45,076)
Fund balances beginning of year	28,450	57,194	36,403	122,047
Balance end of year	14,846	60,075	2,050	76,971

See accompanying independent auditor's report.

AR-WE-VA COMMUNITY SCHOOL DISTRICT

Schedule of Changes in Special Revenue Fund, Student Activity Accounts

Year ended June 30, 2005

Account	Balance Beginning of Year	Revenues	Expenditures	Balance End of Year
	\$	\$	\$	\$
Activity Resale	258	2,318	2,377	199
Athletics	15,068	51,186	44,678	21,576
Concessions	9,464	8,285	8,853	8,896
Cheerleaders	2,195	199	1,272	1,122
Class of 2004	39	-	39	-
Class of 2005	1,633	-	986	647
Class of 2006	97	4,755	4,223	629
Class of 2007	-	39	-	39
Class of 2008	-	24	-	24
Dance Team	1,823	3,488	2,513	2,798
Elementary	9,524	8,200	6,562	11,162
FCCLA	276	2,066	2,190	152
HS Annual	7,005	11,217	11,927	6,295
Honor Society	836	1,066	799	1,103
Industrial Arts	623	894	922	595
Music	3,083	119	3,043	159
School Plays	485	1,380	1,287	578
Student Council	1,423	6,705	6,470	1,658
Sixth Grade/Middle School	2,809	18,549	19,419	1,939
Spirit Club	581	-	127	454
Weight Room	(28)	1,870	1,792	50
Total	57,194	122,360	119,479	60,075

See accompanying independent auditor's report.

AR-WE-VA COMMUNITY SCHOOL DISTRICT

Schedule of Revenues by Source

All Funds

For the Last Four Years

	Modified Accrual Basis			
	2005	2004	2003	2002
	\$	\$	\$	\$
Local sources:				
Property taxes	1,066,940	1,240,683	1,168,104	1,119,205
Income surtax	73,868	68,959	70,069	75,412
Local option sales tax	133,870	32,926	-	-
Utility tax replacement excise tax	30,322	24,121	31,054	28,052
	<u>1,305,000</u>	<u>1,366,689</u>	<u>1,269,227</u>	<u>1,222,669</u>
State sources:				
State foundation aid	1,481,318	1,240,449	1,258,033	1,244,276
School improvement technology funding	-	-	-	9,053
Instructional support	14,238	12,044	13,383	14,348
Shelter care	5,258	-	-	-
Educational Excellence Program:				
Phase I	19,153	19,567	21,597	21,597
Phase II	34,663	33,429	35,315	36,189
Phase III	-	-	8,775	20,680
Teacher mentoring	2,600	1,300	-	-
Non-public transportation aid	14,490	16,245	17,008	20,869
Non-public textbook aid	-	-	44	250
Revenue in lieu of taxes - military credit	658	1,319	797	790
AEA flow-through	137,685	125,360	135,019	135,718
Iowa Early Intervention Block Grant	22,079	20,366	24,005	27,094
Teacher Quality Salary Improvement	36,123	32,902	30,575	31,167
Evaluator Training	2,000	-	1,000	-
Vocational aid	6	2,152	-	-
Other state aid	75	-	-	1,738
Lunch and breakfast program claims	1,021	2,550	2,780	2,583
	<u>1,771,367</u>	<u>1,507,683</u>	<u>1,548,331</u>	<u>1,566,352</u>
Federal sources:				
Title I Grants to Local Educational Agencies	61,871	65,905	65,206	66,002
Class Size Reduction	-	-	-	12,343
Safe and Drug Free School and Communities -				
State Grants	2,578	2,514	3,624	784
State Grants for Innovative Programs	2,240	6,055	-	3,326
Grants for Assessments and Related Activities	2,556	2,466	-	-
Improving Teacher Quality - State Grants	17,922	17,719	20,077	-
Vocational Education - Basic Grants to States	-	-	4,620	-
Eisenhower Math and Science Grants	-	-	1,280	-
Title XIX Assistance	70,939	77,427	35,888	-
Rural Education Achievement Program	34,406	32,159	32,642	-
Special Education - Grants to States	24,552	18,568	-	-
Other federal aid	-	-	12,778	6,493
National School Lunch and Breakfast Programs	67,863	66,031	65,290	56,582
Food Distribution (non-cash)	7,437	9,387	10,547	14,406
	<u>292,364</u>	<u>298,231</u>	<u>251,952</u>	<u>159,936</u>
Total	<u>3,368,731</u>	<u>3,172,603</u>	<u>3,069,510</u>	<u>2,948,957</u>

See accompanying independent auditor's report.

**Independent Auditor's Report on Internal Control over Financial
Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in
Accordance with Government Auditing Standards**

To the Board of Education of the
Ar-We-Va Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Ar-We-Va Community School District as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated July 19, 2005. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Ar-We-Va Community School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements.

Reportable conditions are described in Part I of the accompanying Schedule of Findings.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe item 05-I-A is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Ar-We-Va Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance that are required to be reported under Government Auditing Standards. We noted no instances of non-compliance or other matters that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2005 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Ar-We-Va Community School District and other parties to whom Ar-We-Va Community School District may report, including federal awarding agencies and pass through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Ar-We-Va Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

BRUCE D. FRINK
Certified Public Accountant

July 19, 2005

AR-WE-VA COMMUNITY SCHOOL DISTRICT

Schedule of Findings

Year ended June 30, 2005

Part I: Findings Related to the Basic Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

REPORTABLE CONDITIONS:

05-I-A Segregation of Duties - During our review of the internal control structure, the existing procedures are evaluated in order to determine that incompatible duties, from a control standpoint, are not performed by the same employee. This segregation of duties helps to prevent losses from employee error or dishonesty and therefore maximizes the accuracy of the District's financial statements. We noted that one individual has custody of receipts and performs all record-keeping and reconciling functions for the office.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However, the District should review the operating procedures of the office to obtain the maximum internal control possible under the circumstances.

Response - We will review procedures and investigate available alternatives.

Conclusion - Response acknowledged.

05-I-B Band Uniforms - We noted that the District's Band Booster Club purchased the uniforms that are used by the District's bands in various performances. The Booster Club has maintained ownership of the uniforms. Each student is required to pay a rental fee for use of the uniform.

Since the District maintains an instrumental music program as part of its curriculum there are several issues to deal with here. If the District requires the use of uniforms during performances, it is required to provide such uniforms. This may be done by renting uniforms from the Band Booster Club if it so desires. However, any fees charged to students must be in compliance with Department of Education guidelines. This includes providing the uniforms free or at a reduced rate to participants who qualify under the same guidelines as those used for free and reduced price meals. The use of uniforms is entirely at the discretion of the board of education. It may refuse gifts if it is determined that the receipt of such gifts is not in the best interests of the District. If a gift is accepted by the District, such property then becomes the property of the District to be used at its discretion, subject to agreed-upon restrictions prior to acceptance. Examples of such restrictions would be scholarships or donations for purchase of specific items.

Recommendation - We recommend that the District discontinue the practice of having students renting uniforms from the Band Booster Club immediately. The board of education needs to determine whether or not uniforms will be required as part of the band curriculum. It then needs to determine the best course of action while being mindful of Department of Education guidelines.

Response - We will study alternatives and arrive at a solution that complies with Department of Education guidelines

Conclusion - Response accepted.

AR-WE-VA COMMUNITY SCHOOL DISTRICT

Schedule of Findings

Year ended June 30, 2005

Part II: Other Findings Related to Required Statutory Reporting:

- 05-II-A Official Depositories - Official depositories have been approved by the District. The maximum deposit amounts approved were not exceeded during the year ended June 30, 2005.
- 05-II-B Certified Budget - Disbursements for the year ended June 30, 2005, did not exceed the certified budget amounts in any of the four functions.
- 05-II-C Questionable Disbursements - We noted no disbursements that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.
- 05-II-D Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.
- 05-II-E Business Transactions - No business transactions between the District and District officials or employees.
- 05-II-F Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
- 05-II-G Board Minutes - We noted no transactions requiring Board approval, which had not been approved by the Board.
- 05-II-H Deposits and Investments - We noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.
- 05-II-I Certified Annual Report - The Certified Annual Report was filed with the Department of Education timely and we noted no significant deficiencies in the amounts reported.
- 05-II-J Certified Enrollment - We noted no variances in the basic enrollment data certified to the Department of Education.